

**REPORT OF THE AUDIT OF THE
FORMER ALLEN COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER ALLEN COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003

The Auditor of Public Accounts has completed the audit of the former Allen County Sheriff's Settlement - 2002 Taxes as of January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$4,325,983 for the districts for 2002 taxes, retaining commissions of \$156,304 to operate the Sheriff's office. The former Sheriff distributed taxes of \$4,165,962 to the districts for 2002 taxes. Taxes of \$13 are due to the districts from the former Sheriff and a refund of \$34 is due to the former Sheriff from the extension district.

Report Comments:

- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly
- Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Honorable Bill Foster, Former Allen County Sheriff
Honorable Les Marsh, Allen County Sheriff
Members of the Allen County Fiscal Court

Independent Auditor's Report

We have audited the former Allen County Sheriff's Settlement - 2002 Taxes as of January 5, 2003. This tax settlement is the responsibility of the former Allen County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Allen County Sheriff's taxes charged, credited, and paid as of January 5, 2003, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana May ton, Secretary, Revenue Cabinet
Honorable Johnny Hobby, Allen County Judge/Executive
Honorable Bill Foster, Former Allen County Sheriff
Honorable Les Marsh, Allen County Sheriff
Members of the Allen County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated May 29, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly
- Lacked Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 29, 2003

ALLEN COUNTY
BILL FOSTER, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

January 5, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 377,832	\$ 946,839	\$ 2,179,494	\$ 537,843
Tangible Personal Property	66,480	270,736	280,206	210,721
Intangible Personal Property				17,087
Fire Protection	1,951			
Taxes Increased Through				
Erroneous Assessments	228	569	1,316	2,058
Franchise Corporation Taxes	40,048	107,743	186,915	
Additional Billings	125	312	721	359
Oil and Gas Property Taxes	179	446	1,031	254
Limestone, Sand, and Mineral Reserves	72	179	415	102
Penalties	1	2	3	
Adjusted to Sheriff's Receipt	(6)	6	(54)	(16)
Gross Chargeable to Sheriff	<u>\$ 486,910</u>	<u>\$ 1,326,832</u>	<u>\$ 2,650,047</u>	<u>\$ 768,408</u>
<u>Credits</u>				
Exonerations	\$ 6,973	\$ 18,724	\$ 33,140	\$ 5,285
Discounts	6,141	17,360	33,529	11,306
Charged to Incoming Sheriff	58,415	145,882	332,683	84,838
Uncollected Oil and Gas Property Taxes	8	19	44	10
Uncollected Franchise Taxes	18,149	48,511	85,197	
Total Credits	<u>\$ 89,686</u>	<u>\$ 230,496</u>	<u>\$ 484,593</u>	<u>\$ 101,439</u>
Taxes Collected	\$ 397,224	\$ 1,096,336	\$ 2,165,454	\$ 666,969
Less: Commissions *	17,170	45,536	64,964	28,634
Taxes Due	\$ 380,054	\$ 1,050,800	\$ 2,100,490	\$ 638,335
Taxes Paid	379,702	1,049,983	2,098,452	637,825
Refunds (Current and Prior Year)	349	844	2,038	507
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 3</u>	<u>\$ (27)</u>	<u>\$ 0</u>	<u>\$ 3</u>

* and ** See Page 4

The accompanying notes are an integral part of the financial statement.

ALLEN COUNTY
 BILL FOSTER, FORMER COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2002 TAXES
 January 5, 2003
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,727,216
4% on	\$	423,313
3% on	\$	2,165,454

** Special Taxing Districts:

Library District	\$	2
Extension District		(34)
Soil District		2
Ambulance District		<u>3</u>

Due Districts or (Refund Due Sheriff)	\$	<u><u>(27)</u></u>
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ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former Sheriff's agent in the former Sheriff's name, or provided surety bond which named the former Sheriff as beneficiary/obligee on the bond.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT
January 5, 2003
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 27, 2002 through January 5, 2003.

Note 4. Interest Income

The former Allen County Sheriff earned \$1,847 as interest income on 2002 taxes. As noted in the comment and recommendation section of this report, the former Sheriff should distribute monthly the appropriate amount to the school district as required by statute, and the remainder should be used to operate the Sheriff's office. As of May 29, 2003, the former Sheriff owes \$690 in interest to the school district and \$721 in interest to his fee account.

COMMENTS AND RECOMMENDATIONS

ALLEN COUNTY
BILL FOSTER, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

January 5, 2003

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "...that part of investment earnings for the month which is attributable to the investment of school taxes." The former Sheriff should have distributed the investment earnings at the same time as the monthly tax collections. KRS 134.130(3)(d) requires the remaining interest to be transferred to the Sheriff's fee account. During 2002 tax collections, the former Sheriff earned interest of \$1,847 on his tax account. However, the former Sheriff did not pay the interest to the board of education or the fee account on a monthly basis. A check in the amount of \$207 was written to the Allen County Board of Education, and \$229 was credited to the fee account. The former Sheriff owes \$690 in interest to the Allen County Board of Education and \$721 in interest to his fee account.

Former County Sheriff's Response:

None.

INTERNAL CONTROL:

Lacked Adequate Segregation Of Duties

The former Sheriff's office had a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. The former sheriff could have implemented compensating controls to offset this internal control weakness.

Former County Sheriff's Response:

None.

PRIOR YEAR:

In the prior year audit report, the following comments and recommendations were made:

- The Sheriff Should Deposit Funds Intact On A Daily Basis

This finding has been corrected.

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

This finding has not been corrected and is repeated in this audit report.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Allen County Sheriff's Settlement - 2002 Taxes as of January 5, 2003, and have issued our report thereon dated May 29, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Allen County Sheriff's Settlement - 2002 Taxes as of January 5, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Allen County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacked Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchet, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 29, 2003

